

中原地产红皮书2007

Centaline Property Redbook 2007

中原（中国）地产研究中心

Centaline (China) Property Research Center

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ABSTRACT

Based on the first hand survey and data, the author conducted the analysis on the real estate market in Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing and as well the whole nation from January 2006 to June 2007, including the segment markets of land, residential, office and retail etc. Meanwhile, more attention has been drawn on the new macro control measures and its impact on the real estate market, the landscape and its changes of China real estate industry, the phenomenon and its causes of new round housing price increasing, the prediction of forthcoming macro control policies, and the market trend in the second half of 2007 and 2008 as well. This book is regarded as the good reference for the professionals in real estate to analysis the market condition and could be used as a useful investment guideline for individual property buyers.

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PREFACE

Top Eight Factors Affecting Chinese Real Estate Market

China is taking a more and more important role in the process of globalization, thus China's economy growth becomes increasingly dependent on the world economy status and vulnerable to the external shocks, especially USA economy growth slowdown which is predicted by many foreign and domestic economists. During the year of 2007, China's growth prospects remain rising in our view that the national GDP growth will exceed 9%. However, even under such a rosy prospects of the Macro economy, 8 factors will be quite significant to China's real estate development in 2007 and the future.

1. Continued Increase of Land Costs Changing the Development Mode

China's growth mode of high consumption of land and energy will soon encounter a bottleneck as the land becomes scarcity and costly, which has already attracted the community concerns. China is a much stronger country, with regions at different stages of economic development. The nationwide large-scale urban infrastructure construction still can not be contained in the next period of time, correspond resulting in increased land cost. In addition, since 2001 and especially after "8.31 Deadline" of 2004, the system of land "bidding, auction, and listing" becomes more and more transparent. These comprehensive factors directly lead to continual land price climbing. Therefore, the intensive use of land to enhance the unit output will be a general trend. Correspondingly, higher requirements are on the real estate development. Along with the implementation of the State's strategy of "putting the mid-small-size mass housing with a unit size below 90sqm as the mainstream product", the change of real estate development mode is imminent, and the industrialized, intensive, energy-saving and environmental friendly building is the inevitable direction.

2. Tightening Supply of "Money" and "Land" Dispelling Investment Impulse

Both the successively promulgated macro control policies of nationwide and pertinent implementation

rules of regions are around two cores "to strictly control land supply and tighten credit". The further tightening of "money" and "land" supply will make a lot of domestic developers face unprecedented pressure on land reserve and funds, and the "reshuffle" in the property industry will exacerbate and the consolidation of property enterprises will also accelerate.

The tightening of "land supply" will cause a high cost for a developer to acquire lands. As a strategy of killing two birds with one stone, the enterprises merger and acquisition ("M&A") enables strong enterprises to more effectively reserve more lands. Since 2005, the enterprises M&A events represented by Vanke's acquisition of Nandu occur frequently. Meanwhile, the tightening of "land supply" will also curb the local government's irrational and blind expansion of land use.

Along with the increasingly tightening of "money supply", some property enterprises are facing a crisis of capital chain break. It is endless for them to co-develop projects, or transfer project for cash, or seek for new financing methods. At the same time, it is inevitable for strong developers to conduct trans-regional development strategy to balance their investment risks. In the long term, the continued release of "tightening" signal will weaken the market liquidity and affect the investor's expectation, result in the tightening of bank loan, and dispel the impulse of real estate investment to some extent.

3. Clean Government Improving the Transparency of the Market

In recent years, China's real estate market is expanding rapidly, and the national real estate investment in 2006 is triple of that in 2001; the property price is rising fast, and the national average property price in 2006 is 1.6 times of that in 2001. After making a perspective view of various markets throughout China, you can find that the role of local government is afforded for thought. Especially, certain stubborn issues have been discovered in the land management: It is common occurrence for the officials and businessmen to collude to drive up land prices, the government blindly expands land use driven by the interests from land, the issue of idle land is severe, the phenomena such as illegal use of land, excessive occupation of arable land, and ignoring the rights and interests of farmers are failed to be prohibited repeatedly...., and the "land finance" of the government's "city management" is much doubted.

On September 5th of 2006, the Ministry of Land and Resources (MLR) again issued "Circular on Issues of Strengthening Land Control by the State Council" to cover 8 important reformation items including land interests, the right and responsibility of government, etc., adjust the distribution of interests between the central and local governments, reduce the proportion of net incomes from land grant for local

governments, gradually reduce the economic drivers for local government to blindly expand land use, and reinforce the implementation of macro control policy through the accountability of local government. Ever since 2007, all local governments began to take action on corruption. Along with the deepening of anti-corruption, the integrity and purity of government will be helpful to the healthy development of the real estate market.

4. Expansion of Mid-Low-Price Mass Housing Supply Stabilizing Housing Price

The mid-low-price mass housing will be the main force of housing supply in the future, which is determined by the development status of China. The long-term practices in the developed countries prove that the housing issue can not be completely solved by the market and it needs the direct participation of government. Especially housings for the low-mid income group possess a strong commonweal feature and they shall be considered as "quasi-public goods", and the government shall take the obligation. However, China's current housing development is facing a conflict between over-marketization and insufficiency of social housing.

"The Advice on Adjusting Housing Supply Structure and Stabilizing Housing Price" co-established by 9 ministries and committees including the Ministry of Construction (MC) in May of 2006 puts "to develop mid-low-price mass housing of mid-small-size to meet the self-use demands of local residents" as a key task in the future housing development. This is to reposition the future development from the strategic perspective of mid-long term urban planning and development, and this will lead the direction of future housing development. Since then, a lot of plans and measures to reinforce the construction of economic housing and promote the construction of cheap-rental housing were developed by local governments in succession. However, presently, few of the plans and measures have been implemented successfully. Ever since 2007, local governments have claimed that enlarge the land supply for housing for policy considerations, e.g. in July 2007, Beijing government issued that 1.8 million square meters of social housing and "double limitation" commodity housing were planned to be constructed between 2008 to 2010. However, it will be the key point for the future development that whether this planned constructions could be accomplished to stabilize the market and ensure the public interests or not. Therefore, the mass housing construction will become the important indicators to judge the administration ability of local government.

5. Rapid Regional Economic Growth Promoting the 2nd-Tier Cities' Development

The uneven development of China's regional economy leads to an effect of "regional rotation" of real estate development. During the period of "the 10th Five-Year Plan" (from 2001 to 2005), the real estate market was flourish in the Yangtze River Delta (YRD), steadily developed in the Pearl River Delta (PRD) and Bohai-rim Region, but was still at the initial development stage in Northeast China and Central-west China. The YRD market encountered the strictest control during the years of 2005 and 2006. Along with the sense returning of the market, the demands mainly for self-use have been gradually released since 2007, which will pull up the property price with steady steps. In 2007, as the situation of the demand exceeding the supply can not be visibly improved in the PRD, the demand for both self-use and investment will still remain strong and the market is still expected to be hot. Along with the adjustment of the regional development strategy, the development of Bohai Bay Economic Zone (BBEZ) is launched after the development of the PRD and the YRD. From the beginning of 2007, leading by Beijing and Tianjin, the BBEZ has entered into a period of fast development, and will stimulate the real estate market development. The markets in the Central-West China will be much hotter as the city of Chongqing was authorized to be the third municipality directly under the Central Government, followed to Shanghai and Tianjin. Otherwise, affected by the economic radiances of the 1st-tier cities, the development speed of the 2nd & 3rd-tier cities will be increased greatly.

6. Overseas Funds Adopting Steady Investment Strategy

The favorable economic trends and investment opportunities of China's economy compel overseas funds to be more pro-active in the real estate investment in China. Although an "order of limiting foreign investment in the property investment" issued in July of 2006 curbed the short-term speculation by "overseas hot money", some large internationally famous investment institutions do not stop their paces to enter into China market, and deeply involve in domestic real estate development by all kinds of acquisition and cooperation. Overseas funds still have the optimistic view about the high-end residential (especially villa) market in the 1st-tier cities like Shanghai and Beijing. Meanwhile, many overseas funds also begin to adopt the steady and long term investment strategy and invest in high-quality retail properties. In addition, the investment by the overseas funds in China will gradually expand from the 1st-tier cities to 2nd-tier cities and even 3rd-tier cities in next several years.

In long term, the trend of that overseas funds increase their investments in China real estate market will not be changed a lot. Especially since the exchange rate reformation in July of 2005, although the exchange rate of RMB is fluctuating, its flexibility is gradually increasing, and RMB is almost at the track of the mid and long-term appreciation which is further reinforcing the confidence of the foreign investment in China's real estate market. Meanwhile, along with the periodic change of the world economy, in the future 5 or 10 years, the overseas funds will gradually be pushed to the adjustment and redistribution all around the world. As one of the major emerging markets in the world, China will attract more and more enters of overseas funds as long term investments.

7. Maturing of Securities Markets Facilitating the Real Estate Finance in the Long Term

Since 2006, the securities markets become more and more active and attract a large amount of floating capitals, and partial property investment funds may shift into the capital markets. In short term, the exit of partial funds will be helpful to slow down the housing price increase and stabilize the development of the property market. But in long term, the investors who make profits from the securities market might reinvest into the property market due to higher risk and uncertainty of the securities market. In 2007, the securities markets of China entered to bull markets, it is clearly found that more profits from the securities market is reinvesting into property market, which will support the property price in the 1st & 2nd-tier cities. Generally, the flourish of securities market is favorable to expedite the development of the real estate trust and funds in China. It is expected that some property products with stable rental incomes such as hotel, retail, office, etc. will develop fast in the future.

8. Big International Events Favoring the Real Estate Development in Large Cities

The Olympics and World Expo have undoubtedly become the significant drivers to economic growth in Beijing and Shanghai. The infrastructure investments of the Olympics and World Expo are driving the fast economic growth locally through "multiple effects" and also flourish the development of relevant industries at the same time. But it is incontestable that the Olympics effect and World Expo effect have been excessively exaggerated in some regions in recent years, leading the price of the property surrounding the Olympics and World Expo construction sites to skyrocket, and the excessive overdraw of the "Olympics" and "World Expo" concepts may result in a slack real estate market in the future. However,

from 2007 to 2010, the hotel sector and other sectors relevant to tourism will still benefit from the Olympics and World Expo effects in large cities with huge development potentials.

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List of Abbreviation

Abbreviation	Full Name
SC	State Council
7 M & C	the Ministry of Construction; Ministry of Land and Resources; Ministry of Finance; National Development and Reform Commission; State Administration of Taxation; People's Bank of China; Banking Regulatory Commission.
9 M & C	the Ministry of Construction of PBC; National Development and Reform Commission; Ministry of Supervision; Ministry of Finance; Ministry of Land and Resources; People's Bank of China; State Administration of Taxation; National Bureau of Statistics; China Banking Regulatory Commission.
MC	the Ministry of Construction
NDRC	National Development and Reform Commission
MS	Ministry of Supervision
MF	Ministry of Finance
MLR	Ministry of Land Resources
PBC	People's Bank of China
SAT	State Administration of Taxation
NBS	National Bureau of Statistics
CBRC	China Banking Regulatory Commission
WTO	World Trade Organization
PFMC	Provident Fund Management Center
MPC	Ministry of Public Security
GOMC	General Office of Ministry of Construction
BA	Bank Association
SCPC	Standing Committee of People's Congress
NPC	National People's Congress
MAT	Municipal Administration of Taxation
GOMG	General Office of Municipal Government
REAB	Real Estate Administration Bureau
BLRH	Bureau of Land Resources and Housing
LAB	Land Administration Bureau
PAB	Price Administration Bureau
PMBSC	Property Management Bidding Service Center
SEZ	Special Economic Zone
YRD	The Yangtze River Delta generally comprises the triangular-shaped territory of Shanghai, southern Jiangsu province and northern Zhejiang province. The area lies at the heart of the region traditionally called Jiangnan. The Yangtze river drains into the East China Sea.
PRD	Pearl River Delta geomorphologically, the Zhujiang basin is drained by Xijiang River, Beijiang River, and Dongjiang River. The common definition of the Zhujiang Delta is not very specific. It refers to the cities and counties drained by the lower reaches of Xijiang River, Beijiang River, and Dongjiang River.

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